

Message Text

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15

ACTION EB-11

INFO OCT-01 NEA-10 ISO-00 TRSY-11 AID-20 CIAE-00 COME-00

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CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

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R 230700Z APR 74

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 1494

INFO AMEMBASSY BEIRUT

AMEMBASSY KUWAIT

AMEMBASSY DOHA

AMEMBASSY MUSCAT

AMEMBASSY MANAMA

UNCLAS ABU DHABI 0482 SECTION 1 OF 2

DEPT PASS USDOC

EO 11652: NA

TAGS: ECON, EFIN, TC

SUBJ: UAE INVESTMENT PICTURE

REF: STATE 53993

1. TRANSMITTED HERewith IS REQUESTED INFO RE INVESTMENT CLIMATE IN UAE. REGRET MATERIAL SLIGHTLY LONGER THAN REQUESTED BUT FEEL FURTHER CONDENSATION WOULD OBSCURE FACT THAT SUBJECT CANNOT BE DISCUSSED ON UAE-WIDE BASIS, BUT RATHER MUST NOTE SLIGHT VARIANCE BETWEEN EMIRATES.

2. BEGIN TEXT:

UNITED ARAB EMIRATES (UAE)

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ESTABLISHED IN LATE 1971, THE UAE IS ONE OF THE WORLD'S

WEALTHIEST NATIONS. OIL PRODUCTION IS RUNNING AT ABOUT 2.0 MILLION BARRELS DAILY IN APRIL 1974 AND COULD RISE TO APPROX 2.2 MILLION BARRELS PER DAY BY THE END OF THE YEAR. OIL INCOME, PRIMARILY IN THE CONSTITUENT EMIRATE OF ABU DHABI, MAY WELL REACH DOLS 4 1/2 TO 5 BILLION, DEPENDING UPON BASIC PRODUCTION DECISIONS AND SPOT MARKET PRICES FOR CRUDE. THE EMIRATE OF DUBAI ALSO HAS A MODEST OUTPUT OF OIL (APPROX 300,000 BPD) AND SHARJAH WILL BEGIN PRODUCTION APPROX JUNE 1, 1974 ALTHOUGH INCOME WILL BE RELATIVELY SMALL IN 1974. IN RAS AL-KHAIMAH, AN OFFSHORE CONCESSIONAIRE IS PREPARING TO BEGIN DRILLING IN AN AREA WHERE OIL WAS DISCOVERED IN THE LATE 1960'S IN WHAT WERE THEN UNCOMMERCIAL QUANTITIES.

3. DESPITE THE CONSIDERABLE OIL REVENUE LARGELY IN THE HANDS OF THE SEVERAL OIL-RICH EMIRATES, NEEDS FOR INFRA-STRUCTURE PROJECTS AND EXPENDITURES TO ERASE THE EFFECTS OF YEARS OF POVERTY AND LIMITED OPPORTUNITIES FOR DEVELOPMENT ABSORB A LARGE PROPORTION OF FUNDS, LEAVING RELATIVELY LITTLE AT THE PRESENT STAGE FOR RESERVES AND INVESTMENTS. ABU DHABI, FOR EXAMPLE, CONTINUES TO HAVE INVESTMENTS OF APPROX DOLS 500 MILLION WITH ONLY MINOR AND UNDISCLOSED AMOUNTS IN THE US, LARGELY IN STOCKS AND BONDS AND SHORT-TERM DOLLAR HOLDINGS. OTHER EMIRATES HAVE EVEN SMALLER HOLDINGS ABROAD. THE OIL WEALTH OF THE UAE HAS NOT YET FILTERED DOWN SUBSTANTIALLY TO LOCAL BUSINESSMEN AND FLEDGLING ENTERPENEURS, WHO WELCOME FOREIGN EQUITY PARTICIPATION IN JOINT VENTURES IN THE PRIVATE SECTORS. IN ADDITION, MANY OF THE WEALTHIER SHAIKHS (MEMBERS OF VARIOUS RULING FAMILIES) ARE

ALSO OPEN TO BUSINESS PROPOSITIONS FROM FOREIGN INVESTORS.

4. AS IN MANY AREAS OF LAW, NO FEDERAL CODE REGULATING INVESTMENT IN THE UAE EXISTS AND, GIVEN DIFFERING PHILOSOPHIES AMONG THE VARIOUS EMIRATES, IT APPEARS UNLIKELY THAT A UAE LAW WILL SEE LIGHT IN THE FORESEEABLE FUTURE. MOST FOREIGN INVESTMENT HAS THUSFAR BEEN CONCENTRATED IN ABU DHABI AND DUBAI, ALTHOUGH POSSIBILITIES IN SHARJAH, AND POSSIBLY, RAS AL-KHAIMAH WILL GROW IN THE NEAR FUTURE. DUBAI HAS THE REPUTATION OF HAVING A LAISSEZ-FAIRE OUTLOOK AND, INDEED, THERE ARE FEW FORMAL REGULATIONS REGARDING INVESTMENT. POTENTIAL INVESTORS, HOWEVER, UNCLASSIFIED

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ARE CAUTIONED TO MAKE CERTAIN THAT THEIR ENTERPRISES HAVE THE BLESSING OF THE SHAIKH RASHID, THE RULER, AND OTHER APPROPRIATE OFFICIALS, BEFORE PROCEEDING. IN ABU DHABI, OVERT RESTRICTIONS PERTAIN TO ANY TYPE OF ENTERPRISE, WITH THE EXCEPTION OFFICES OF CONSULTANTS, AND REQUIRE THE NOMINATION OF AN ABU DHABI NATIONAL AS PARTNER WITH OR WITHOUT EQUITY PARTICIPATION. A LAW APPROVED BY THE FORMER ABU DHABI MINISTRY OF ECONOMY AND COMMERCE (NOW

DEFUNCT) CALLED FOR 51 PERCENT PU DHABI OWNERSHIP BY LATE 1974. ITS IMPLEMENTATION IS A MOOT QUESTION, HOWEVER, SINCE IT DISCRIMINATES AGAINST OTHER UAE CITIZENS AND ONLY A FEDERAL MINISTRY NOW DIRECTS COMMERCE. NEVERTHELESS, LOCAL AUTHORITIES, PRESSED BY ABU DHABI CITIZENS, COULD DECIDE TO ENFORCE IT RIGIDLY. IN SHARJAH, RAS AL-KHAIMAH AND THE OTHER NON-OIL EMIRATES (AJMAN, UMM AL-QAIWAIN AND FUJAIRAH) INVESTMENTS ARE CERTAINLY ENCOURAGED AND SPECIAL ADVANTAGES MIGHT WELL BE NEGOTIATED AS THESE LESSER-KNOWN ENTITIES ATTEMPT TO ATTRACT FOREIGN FUNDS. IN GENERAL, A WELL-PLACED LOCAL PARTNER IS OF CONSIDERABLE ASSISTANCE TO THE INVESTOR.

5. TAXES AND IMPORT DUTIES (BOTH LOCAL) ARE NONEXISTENT OR EXTREMELY LOW (NO MORE THAN 4 PERCENT EXCEPT ON ALCOHOLIC BEVERAGES). LARGE FOREIGN INVESTORS, WHOSE ENTERPRISES CONTRIBUTE TO THE INDUSTRIALIZATION AND/OR DIVERSIFICATION OF

THE ECONOMY MAY NEGOTIATE THE USUAL PROTECTION FROM COMPETITION ACCORDED INFANT INDUSTRIES IN MANY PARTS OF THE WORLD.

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